

IRS TAX TIP 2001-47

FORM W-4 -- THE KEY TO TAX WITHHOLDING

WASHINGTON -- When you start a new job, you must complete Form W-4, "Employee's Withholding Allowance Certificate," so your employer can withhold the correct federal income tax from your pay. Detailed instructions on the form and its worksheet can help you figure your correct withholding amount, according to the IRS. If your tax situation changes, you can change your withholding and submit a new Form W-4 to your employer.

You can also use the Form W-4 to tell your employer not to deduct any federal income tax from your wages. To qualify for this exempt status, you must have received a full refund of all the federal income tax withheld from your pay in 2000, and you must expect to receive a full refund of all the federal income tax withheld from your pay in 2001. Anyone who falsely claims exempt status can be assessed a \$500 penalty. If the IRS believes your Form W-4 is incorrect, your employer will be instructed to withhold federal income tax at a rate up to the highest withholding rate.

If you fail to provide your employer with a completed and signed Form W-4, your employer must withhold federal income tax from your wages at the rate of single with zero allowances.

If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding will generally be most accurate when all allowances are claimed on the W-4 filed for the highest paying job, and zero allowances are claimed for the others.

You may be entitled to additional withholding allowances based on the total dollar amount of your itemized deductions, certain tax credits, or adjustments to income. The worksheets on the Form W-4 take these items into account and help you figure your withholding. You may always claim fewer allowances than you are entitled to. This will result in your employer deducting a higher amount of federal income tax from your pay.

For additional information on completing Form W-4, get a copy of Publication 505, "Tax Withholding and Estimated Tax," and Publication 919, "How Do I Adjust My Tax Withholding?" You may call 1-800-829-3676 to order them, or download them from the IRS Web Site at www.irs.gov.